

## Message Text

LIMITED OFFICIAL USE

PAGE 01 EC BRU 04614 01 OF 02 091849Z

46

ACTION EUR-25

INFO OCT-01 IO-13 ADP-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

SS-15 NSC-10 L-03 H-03 PRS-01 PA-03 USIA-15 AGR-20

TAR-02 RSR-01 /209 W

----- 047444

R 091723Z AUG 73

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 5647

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 4614

PASS TREASURY, FRB AND CEA

E.O. 11652: NA

TAGS: EEC, EFIN

SUBJ: ECONOMIC AND MONETARY UNION -- EC COMMISSION

REPORT ON PROGRESSIVE POOLING OF RESERVES

AND ADJUSTMENT OF SHORT-TERM MONETARY SUPPORT

REF: EC BRUSSELS 3642, PARA. 4

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 EC BRU 04614 01 OF 02 091849Z

1. SUMMARY. THE EC COMMISSION'S REPORT TO THE COUNCIL

(POUCHED TO EUR/RPE ON JULY 2, 1973) HAS NOT YET BEEN SERIOUSLY STUDIED IN THE COMMUNITY. THE FIRST RE-ACTION OF MANY OF OUR CONTACTS, HOWEVER, IS THAT THE PROPOSAL IS A BOLD ONE CONTAINING A NOVEL EMPHASIS ON PROGRESSIVE POOLING OF RESERVES DENOMINATED IN A UNIT OF ACCOUNT THAT WOULD BECOME A SETTLEMENT AND RESERVE INSTRUMENT. PRELIMINARY INDICATIONS HERE ARE THAT THE UK, ITALY AND THE SMALLER MEMBER STATES -- WHILE NOT NECESSARILY ADVOCATING EARLY ACTION -- GENERALLY FAVOR THE PROPOSAL WHILE THE GERMANS AND FRENCH ARE FAR MORE RETICENT. THE MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES AND THE SO-CALLED THERON GROUP WILL SUBMIT REPORTS ON THE PROPOSAL, AND THE EC FINANCE MINISTERS MAY HAVE AN INITIAL DISCUSSION OF IT BY LATE OCTOBER. OUR SOURCES TELL US THERE MAY BE POLITICAL PRESSURE TO TAKE SOME CONCRETE ACTION, EVEN IF LARGELY SYMBOLIC, BY THE BEGINNING OF 1974. END SUMMARY.

2. THE COMMISSION'S PAPER ON PROGRESSIVE POOLING OF RESERVES AND ADJUSTMENT OF SHORT-TERM MONETARY SUPPORT ARRANGEMENTS GREW OUT OF THE COMMUNITY'S COMMITMENT TO ESTABLISH ECONOMIC AND MONETARY UNION BY DECEMBER 31, 1980, A COMMITMENT WHICH, AS THE COMMISSION'S PAPER NOTES, WAS REAFFIRMED BY THE EC SUMMIT IN OCTOBER 1972. THE PAPER DEALS PRINCIPALLY WITH THE CONDITIONS FOR PROGRESSIVE POOLING OF RESERVES AND IMPROVEMENT OF COMMUNITY CREDIT MACHINERY. IT ALSO STRESSES THE IMPORTANCE OF A) STRENGTHENING COORDINATION OF MEMBER STATE MONETARY POLICIES; B) JOINT ACTION ON INTER-NATIONAL MONETARY PROBLEMS, AND C) GIVING THE COMMUNITY "A WATCHING BRIEF" ON CHANGES IN COMMUNITY EXCHANGE RATE RELATIONS. WITH REGARD TO THE LATTER POINT, THE PAPER SAYS THAT AS A RESULT OF GROWING ECONOMIC INTER-DEPENDENCE WITHIN THE COMMUNITY, AN EXCHANGE RATE POLICY MUST ALLOW FOR "COMMUNITY DIMENSIONS AND NOT BE THE SOLE RESPONSIBILITY OF THE MEMBER STATES". WE BELIEVE THE COMMISSION'S VIEW ON EXCHANGE RATES IS NOTEWORTHY IF ONLY BECAUSE IT WAS SURROUNDED WITH CONTROVERSY WHEN IT APPEARED IN THE ORIGINAL DRAFT AND FACED POSSIBLE ELIMINATION IN THE FINAL VERSION.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 EC BRU 04614 01 OF 02 091849Z

3. THE COMMISSION PROPOSES THREE FUNDAMENTAL MEASURES IN ITS REPORT:

(A) ENDOWMENT OF THE MONETARY COOPERATION FUND WITH AN INITIAL CAPITAL OF 500 MILLION UNITS OF ACCOUNT (ONE UNIT OF ACCOUNT EQUALS \$1.2063) SUBSCRIBED IN COMMUNITY CURRENCIES AND APPORTIONED BETWEEN THE

MEMBER STATES ON THE SAME SCALE ESTABLISHED FOR SHORT-TERM MONETARY SUPPORT. THIS CAPITALIZATION WOULD BE THE FINANCIAL COUNTERPART OF THE FUND'S LEGAL PERSONALITY AND WOULD BE USED TO FINANCE OPERATING EXPENDITURES.

(B) PROGRESSIVE POOLING OF RESERVE ASSETS (GOLD, GOLD-LINKED ASSETS, AND DOLLARS) BEGINNING WITH AN INITIAL CONTRIBUTION OF 20 PERCENT ON JANUARY 1, 1974, AND ENDING WITH COMPLETE POOLING IN 1980. THE INITIAL POOLING WOULD AMOUNT TO 11.3 BILLION UNITS OF ACCOUNT FOR THE COMMUNITY AS A WHOLE. THE PROBLEM OF VALUATION OF GOLD WOULD BE EXAMINED SUBSEQUENTLY WHEN A NEW PRICE FOR GOLD WAS AGREED UPON AT THE INTERNATIONAL LEVEL OR BETWEEN COMMUNITY CENTRAL BANKS.

(C) IMPROVEMENT AND SIMPLIFICATION OF THE COMMUNITY'S CREDIT MACHINERY THROUGH THE FUND WITH FACILITIES FOR UNINTERRUPTED CREDIT RANGING FROM THE VERY SHORT-TERM ONE MONTH CREDITS TO LONGER TERM LOANS SUBJECT TO SPECIFIC ECONOMIC POLICY CONDITIONS. SHORT-TERM CREDIT WOULD BE SIX TIMES GREATER THAN AT PRESENT WITH THE TOTAL CREDIT AVAILABLE TO A CENTRAL BANK REACHING 8.175 BILLION UNITS OF ACCOUNT.

4. GOING BEYOND PREVIOUS REPORTS AND PROPOSALS, THE COMMISSION'S PAPER CALLS FOR MEMBER STATE BALANCES WITH THE FUND TO BE "DENOMINATED IN EUROPEAN MONETARY UNITS OF ACCOUNT, WHICH WOULD BECOME A SETTLEMENT AND RESERVE INSTRUMENT...AVAILABLE FOR THE SETTLEMENT OF POSITIONS ARISING FROM INTERVENTION IN COMMUNITY CURRENCIES AND EXCHANGEABLE IN THE FUND FOR FOREIGN EXCHANGE TO FINANCE INTERVENTION VIS-A-VIS THIRD CURRENCIES".  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 EC BRU 04614 01 OF 02 091849Z

5. COMMISSION OFFICIALS HAVE TOLD US THE UNIT OF ACCOUNT WOULD NOT BE HELD OUTSIDE EC CENTRAL BANKS AND THAT, SINCE USE OF THE UNIT OF ACCOUNT AS A VEHICLE OF INTERVENTION GOES WELL BEYOND THE SCOPE OF THE PROPOSAL, THE NOTION OF A COMMUNITY RESERVE "ASSET" MIGHT BE MORE APPROPRIATE THAN A RESERVE "INSTRUMENT". THEY ALSO SAY THEY ARE WELL AWARE OF THE DISADVANTAGES OF RESERVE CURRENCIES AND HAVE NO INTENTION OF CREATING ONE IF IT CAN BE AVOIDED. AT THE SAME TIME, THEY BELIEVE THAT AS THE COMMUNITY EVOLVES INTO A MORE COHESIVE MONETARY AREA, A UNIT OF ACCOUNT WITH A GUARANTEED VALUE IS ESSENTIAL TO INDUCE CREDITOR MEMBER STATES TO HOLD CLAIMS AGAINST THE FUND, WHICH UNDER THE COMMISSION'S PROPOSAL WOULD CONSTITUTE

RESERVE ASSETS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 EC BRU 04614 02 OF 02 091920Z

46

ACTION EUR-25

INFO OCT-01 IO-13 ADP-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

SS-15 NSC-10 L-03 H-03 PRS-01 PA-03 USIA-15 AGR-20

TAR-02 RSR-01 /209 W

----- 047677

R 091723Z AUG 73

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 5648

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 4614

PASS TREASURY, FRB AND CEA

6. ALTHOUGH THE COMMISSION'S REPORT HAS NOT YET RECEIVED SERIOUS STUDY IN THE COMMUNITY, THE MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES HAVE BEEN REQUESTED TO PRODUCE REPORTS ON THE PROPOSAL AND THE THERON GROUP (A WORKING GROUP OF THE CENTRAL BANK GOVERNORS COMMITTEE) WILL PRODUCE A BRIEF APPRAISAL BY LATE SEPTEMBER. PERMANENT REPRESENTATION SOURCES TELL

US THERE MAY BE SOME INITIAL DISCUSSION OF THE PAPER  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 EC BRU 04614 02 OF 02 091920Z

BY THE EC FINANCE MINISTERS WHEN THEY MEET IN LATE  
OCTOBER.

7. A NUMBER OF TECHNICAL PROBLEMS ARE NOT DEALT WITH  
IN THE REPORT AND WILL OF COURSE HAVE TO BE FACED  
IN THE EVENT ANY RESERVE POOLING DOES ACTUALLY TAKE  
PLACE. ONE OF THE MORE OBVIOUS PROBLEMS IS THE RE-  
LATIONSHIP OF THE UNIT OF ACCOUNT TO GOLD AND NATIONAL  
CURRENCIES. EC MONETARY AUTHORITIES WILL HAVE TO  
DECIDE WHAT WILL HAPPEN IF A MEMBER STATE'S CURRENCY  
APPRECIATES OR DEPRECIATES FOLLOWING A CONTRIBUTION  
TO THE FUND AND RECEIPT BY A MEMBER STATE OF A UNIT OF  
ACCOUNT CREDIT WITH A GUARANTEED VALUE. THERE MAY ALSO BE A  
PROBLEM OF BALANCING THE FUND'S ASSETS AGAINST ITS LIABILITIES,  
SINCE THE LATTER WOULD HAVE A GUARANTEED VALUE IN THE  
FORM OF CLAIMS AGAINST THE FUND WHEREAS ASSETS IN  
NATIONAL CURRENCIES WOULD NOT.

8. ALTHOUGH NO FIRM POSITIONS OF MEMBER STATES TOWARDS  
THE PROPOSAL HAVE EMERGED AS YET, PRELIMINARY INDICA-  
TIONS HERE ARE THAT THE UK AND ITALY, ALONG WITH THE  
SMALLER MEMBER STATES, GENERALLY FAVOR THE PROPOSAL  
THOUGH NOT NECESSARILY RAPID ACTION ON IT. THE DUTCH,  
EVEN IF GENERALLY IN FAVOR FROM THE POINT OF VIEW  
OF COMMUNITY SOLIDARITY, ARE MORE RELUCTANT ABOUT THE  
CREDIT IMPLICATIONS OF RESERVE POOLING. THE GERMANS  
ARE ALSO SAID TO BE RETICENT FOR SIMILAR REASONS AND  
ARE BELIEVED TO PREFER A MORE PRAGMATIC APPROACH WITH  
LESS EMPHASIS ON MONETARY INITIATIVES AND MORE ON  
COORDINATION OF ECONOMIC POLICIES. THE FRENCH ARE  
ALSO REPORTEDLY UNENTHUSIASTIC ABOUT THE IMPLICATIONS  
OF THE PROPOSAL FOR MEMBER STATE SOVEREIGNTY IN MONETARY  
AFFAIRS.

9. ALTHOUGH THESE POSITIONS DO NOT AUGUR WELL FOR A  
UNANIMOUS DECISION BY THE MEMBER STATES TO POOL 20  
PERCENT OF THEIR RESERVES BY JANUARY 1, 1974, THE  
COMMISSION, WITH THE SUPPORT OF SOME MEMBER STATES, WILL  
MOST LIKELY PRESS FOR MOVING AHEAD ON SCHEDULE IN  
ACCORDANCE WITH THE MANDATE OF THE OCTOBER 1972 SUMMIT.  
THERE IS THUS A CHANCE THAT SOME CONCRETE STEPS, PERHAPS  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 EC BRU 04614 02 OF 02 091920Z

LARGELY SYMBOLIC AND CERTAINLY FALLING WELL SHORT  
OF WHAT THE COMMISSION PROPOSES, MIGHT BE TAKEN. ONE  
OF OUR PERM REP CONTACTS FROM A MEMBER STATE GENERALLY  
FAVORING THE PROPOSAL SAYS THAT THE DANGER IS  
PRECISELY THAT, DESPITE CONSIDERABLE OPPOSITION, THE  
POLITICAL PRESSURE TO DO "SOMETHING" MAY LEAD TO HASTY  
HALF STEPS WHEN IT MIGHT BE IN EVERYONE'S INTEREST  
TO MOVE MORE SLOWLY.

10. THE POOLING OF EVEN 20 PERCENT OF MEMBER STATE  
RESERVES MIGHT SEEM HIGHLY THEORETICAL IN THE CURRENT  
CLIMATE OF PESSIMISM ABOUT EARLY PROGRESS TOWARD  
ECNOMIC AND MONETARY UNION -- SYMBOLIZED BY AN EC  
SNAKE CONSIDERED FRAGILE EVEN WITHOUT THE POUND AND  
THE LIRA. IN PRESENTING ITS PROPOSAL, HOWEVER, THE  
COMMISSION WAS DETERMINED TO FULFILL THE MANDATE GIVEN  
IT BY THE EC SUMMIT. SHOULD THIS CLIMATE OF PESSIMISM  
CHANGE, WHETHER BECAUSE OF GROWING INTERNATIONAL  
MONETARY STABILITY OR DEVELOPMENTS WITHIN THE COMMUNITY  
OR BOTH, IT IS LIKELY THE COMMISSION'S IDEAS ON RESERVE POOLING  
WILL BE VIEWED AS AN INTEGRAL AND IMPORTANT PART OF THE CREATION  
OF ECONOMIC AND MONETARY UNION. (THE MISSION IS  
POUCHING TO EUR/RPE FOUR ADDITIONAL COPIES OF THE  
COMMISSION'S PAPER -- THREE IN ENGLISH AND ONE IN FRENCH.)  
GGREENWALD

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 09 AUG 1973  
**Decapton Date:** 01 JAN 1960  
**Decapton Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** hilburpw  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973ECBRU04614  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** EC BRUSSELS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19730849/aaaabjod.tel  
**Line Count:** 302  
**Locator:** TEXT ON-LINE  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** EC BRUSSELS 3642, PARA. 4  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** hilburpw  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 06 SEP 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <06-Sep-2001 by elyme>; APPROVED <10-Sep-2001 by hilburpw>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC AND MONETARY UNION -- EC COMMISSION REPORT ON PROGRESSIVE POOLING OF RESERVES  
**TAGS:** EFIN, EEC  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005